

Message Text

SECRET

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FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC IMMEDIATE 5122

S E C R E T SECTION 1 OF 2 MOSCOW 14084

NODIS CHEROKEE

FROM ROBINSON

E. O. 11652: GDS

TAGS: ETRD, UR, US

SUBJ: SOVIET GRAIN/OIL NEGOTIATIONS

1. SUMMARY. I MET TODAY WITH PATOLICHEV, KUZ'MIN AND SIX OTHER SOVIET OFFICIALS, INCLUDING BAKHTOV AND MERKULOV, WHO ARE RESPONSIBLE FOR OIL EXPORTS. AMBASSADOR STOESSEL, HINTON, BELL OF FEA, AND NILES ALSO PARTICIPATED IN 7 NON-STOP HOURS OF NEGOTIATION. THE FIRST FOUR HOURS WERE DEVOTED TO A CONTINUING DISCUSSION OF OUR REVISED DRAFT AGREEMENT ON GRAIN, WHICH HAD BEEN CONSIDERED BY THE WORKING GROUP IN AN EARLIER MEETING OF 1 1/2 HOURS DURATION. ALTHOUGH THERE ARE STILL THREE ISSUES TO BE RESOLVED BEFORE WE CAN CONCLUDE THE GRAIN AGREEMENT, IT STILL APPEARS LIKELY THAT WE COULD ACCOMPLISH THIS BEFORE I LEAVE MOSCOW. THE FINAL THREE HOURS WERE DEVOTED TO A DISCUSSION OF THE OIL AGREEMENT. THE SOVIETS FINALLY APPEARED TO RECOGNIZE THAT WE MUST HAVE TANGIBLE PROGRESS ON THE OIL AGREEMENT AS A CONDITION FOR CONCLUDING A GRAIN AGREEMENT. THEY ARE NOW PREPARED TO CONSIDER EXECUTION OF A LETTER OF INTENT SPELLING OUT THE BASIC PROVISIONS TO BE INCLUDED IN A FORMAL AGREEMENT WHICH COULD BE NEGOTIATED OVER THE NEXT MONTH.

2. WE WILL SEND A SEPARATE CABLE PROVIDING DETAILED DESCRIPTION OF THE REMAINING ISSUES TO BE RESOLVED IN THE GRAIN AGREEMENT. HOWEVER, THERE ARE THREE BASIC PROBLEMS.

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A. IN THE PREAMBLE SOVIETS OBJECT TO OUR REFERENCE TO THE AGREEMENT ON COOPERATION IN THE FIELD OF AGRICULTURE (WHICH WE HAD PROPOSED AS SUBSTITUTE FOR ARTICLE ON INFORMATION EXCHANGE) AND TO OUR REFERENCE TO THE STOCKPILING OF GRAIN IN SURPLUS YEARS. PATOLICHEV OBJECTED TO THE FIRST BECAUSE IT REPRESENTS A CONTRACT SIGNED BY GROMTKO (AND NOT PATOLICHEV.) HE OBJECTS TO THE REFERENCE TO GRAIN STOCKPILING ARGUING THAT THIS COULD SUBJECT THEM TO INCREASING PRESSURE TO PROVIDE FOOD AID TO DEVELOPING COUNTRIES, PARTICULARLY IN YEARS OF WORLDWIDE GRAIN SHORTAGE. AS THE PREAMBLE DOES NOT AFFECT OUR CONTRACTUAL COMMITMENT, WE PLAN ACCEPT THE DELETION OF THESE TWO REFERENCES.

B. WE HAD EXTENDED DISCUSSION OF THE PRINCIPLES TO BE COVERED IN THE SIDE LETTER ON THE MARITIME AGREEMENT. WE HAD NOT PRESENTED A DRAFT OF THIS LETTER, PENDING RECEIPT OF AUTHORIZATION FROM WASHINGTON, BUT INDICATED THAT WE WOULD INSIST UPON:

(1) REAFFIRMATION OF THE SOVIETS' INTENT TO EXTEND THIS AGREEMENT, WHICH TERMINATES ON DECEMBER 31, 1975,

(2) PROVIDING FOR AN EXTENDED PERIOD COTERMINOUS WITH THE GRAIN AGREEMENT, AND

(3) ASSURING CONTINUATION OF THE CARGO-SHARING PROVISION, WHICH GUARANTEES A MINIMUM OF ONE-THIRD OF THE TOTAL SHIPPING TO US-FLAG VESSELS.

C. AFTER CONSULTATION WITH THE SOVIET MINISTER OF MERCHANT MARINE, PATOLICHEV CONFIRMED THAT THE SOVIETS WOULD COMMENCE NEGOTIATION OF THE EXTENSION OF THE MARITIME AGREEMENT IN WASHINGTON ON OCTOBER 22 AND IT WAS THEIR INTENT TO RENEW BEFORE THE END OF OCTOBER. HE ALSO REPORTED THAT THEY WERE PREPARED TO MAKE THE TERM PARALLEL WITH THAT OF THE GRAIN AGREEMENT AND WOULD RETAIN THE PRESENT CARGO-SHARING FORMULA. PATOLICHEV CONTINUED TO OBJECT TO OUR PROPOSAL FOR A SIDE LETTER ESTABLISHING THIS AGREEMENT AS THIS WAS NOT WITHIN HIS AUTHORITY BUT WOULD REQUIRE A COMMITMENT FROM THE MINISTRY OF MERCHANT MARINE. FURTHERMORE, HE FELT THAT A COMMITMENT TO EXTEND WOULD COMPROMISE THE SOVIET POSITION IN THE NEGOTIATIONS, WHICH COVERED A BROAD
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RANGE OF OTHER COMPLEX ISSUES NOT YET RESOLVED. ACCORDINGLY, IT IS RECOMMENDED THAT WE REFER THIS PROBLEM TO MARAD AND SUGGEST A PROMPT EXCHANGE (ALONG LINES OF TEXT SUGGESTED MOSCOW'S 14014) WITH THE SOVIET MINISTRY OF MERCHANT MARINE TO PROVIDE WHATEVER ASSURANCE ON SHIPPING ARRANGEMENTS MAY BE REQUIRED TO SATISFY THE AFL-CIO. MINISTER PATOLICHEV APPEARS TO BE AGREEABLE TO THIS SOLUTION AND I FEEL THIS COULD MEET OUR MINIMUM REQUIREMENTS.

D. PATOLICHEV REGISTERED A SERIOUS OBJECTION TO WHAT HE ANTICIPATED WE WOULD REQUIRE IN THE SIDE LETTER ON THE GENERAL ESCAPE CLAUSE. ALTHOUGH WE DID NOT DESCRIBE THIS IN DETAIL, WE DID INDICATE WE WOULD QUANTIFY AND CLEARLY ESTABLISH AGREED ACTION UNDER ARTICLE 5, WHICH PROVIDES GENERAL PROTECTION AGAINST A SERIOUS GRAIN SUPPLY SHORTAGE. I MENTIONED THAT THIS WOULD CALL FOR A MINIMUM SUPPLY OF 225 MILLION METRIC TONS. HE FINALLY SUGGESTED AS AN ALTERNATIVE THAT WE MERELY SEND THEM A LETTER UNILATERALLY. THIS CONTINUES TO BE OUR MOST DIFFICULT ISSUE AND WE HAVE SERIOUS NEGOTIATIONS AHEAD BEFORE THIS WILL BE RESOLVED; HOWEVER, WE ARE EXPLORING ALTERNATIVE SOLUTIONS.

3. PATOLICHEV CONTINUED TO STRESS FACT THAT THEIR REQUIREMENTS FOR SUPPLEMENTAL GRAIN PURCHASES FROM THE U.S. FOR THE CURRENT YEAR ARE "INSIGNIFICANT." ALTHOUGH THIS IS CLEARLY TACTICAL ON THIS PART, HE ALSO IMPLIES THAT THE SOVIETS ARE PREPARED TO CONCLUDE A LONG-TERM GRAIN AGREEMENT WITHOUT A FIRM CONDITION ON SUPPLEMENTAL U.S. GRAIN SALES.

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TO SECSTATE WASHDC IMMEDIATE 5123

S E C R E T SECTION 2 OF 2 MOSCOW 14084

NODIS CHEROKEE

FROM ROBINSON

4. DURING THE FINAL THREE HOURS OF OUR NON-STOP SESSION TODAY, WE DISCUSSED THE OIL AGREEMENT, WITH PATOLICHEV CLEARLY POSTURING FOR THE BENEFIT OF THE NEW SOVIET PARTICIPANTS RESPONSIBLE FOR OIL EXPORTS. IT IS CLEAR THAT THEY WILL RESIST

CONCLUSION OF ANY FORMAL AGREEMENT IN WHICH THE APPEARANCE OF DISCOUNT PRICING COULD EMBARRASS THEM BOTH INTERNALLY AND EXTERNALLY. HOWEVER, PATOLICHEV CONTINUES TO IMPLY THAT SOME PRICE DISCOUNT COULD BE ARRANGED IF EFFECTIVELY CONCEALED. ALTHOUGH ADMITTING THE LINKAGE BETWEEN THE OIL AND GRAIN AGREEMENTS, HE CONTINUES TO STRESS THE NEED FOR MORE TIME TO CONCLUDE ANY FINAL AGREEMENT ON OIL BECAUSE OF ITS COMPLEXITY. HE APPEARS TO BE INTRIGUED WITH THE IDEA OF A LINKAGE THROUGH THE TRANSPORT OF OIL ON TANKERS EMPLOYED IN THE DELIVERY OF GRAIN, AND WE ARE USING THIS FOR MAXIMUM LEVERAGE. WE ARE ALSO HOLDING OUT THE POSSIBILITY OF BROADER COOPERATION BETWEEN THE U.S. AND THE U.S.S.R. IN ENERGY WHICH COULD FOLLOW FROM AN INITIAL OIL SALES AGREEMENT. WE FINALLY AGREED THAT WE COULD EXPLORE THE POSSIBILITY OF A LETTER OF INTENT ON OIL WHICH COULD BE SIGNED AT THE TIME OF EXECUTING THE GRAIN AGREEMENT. IN ANSWER TO HIS QUESTION, I PROPOSED THAT SUCH A LETTER OF INTENT INCLUDE THE FOLLOWING PROVISIONS:

A. QUANTITY - 10 TO 12 MILLION METRIC TONS ANNUALLY.

B. PRODUCT - AT LEAST 70 PERCENT CRUDE OIL WITH UP TO 30 PERCENT IN REFINED PRODUCTS, PRIMARILY DIESEL AND NAPHTHA.
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C. PURCHASES TO BE MADE BY THE U.S. GOVERNMENT, OR AT U.S. GOVERNMENT OPTION BY THE U.S. PRIVATE OIL COMPANIES.

D. AT LEAST SOME PORTION OF THE OIL BE BE TRANSPORTED TO THE UNITED STATES USING SHIPS (BOTH U.S. AND SOVIET-FLAG) EMPLOYED TO TRANSPORT GRAIN UNDER THE LONG-TERM AGREEMENT.

E. U.S. GOVERNMENT OPTION TO DIVERT SOME PORTION OF THE OIL AND/OR PETROLEUM PRODUCTS INTO OTHER MARKETS, AS AGREED.

F. PRICES FOR CRUDE AND OTHER PRODUCTS TO BE MUTUALLY AGREED.

G. POSSIBLE EXTENSION OF THESE NEGOTIATIONS TO INCLUDE BROADER AREAS OF COOPERATION BETWEEN THE U.S. AND THE USSR IN THE ENERGY FIELD.

5. THE IDEA OF SUCH A LETTER OF INTENT APPEARED TO BE ACCEPTABLE TO PATOLICHEV, ALTHOUGH WE ENGAGED IN AN EXTENDED ARGUMENT OVER THE QUESTION OF HOW WE WOULD REFER TO THE PRICING UNDER THE PROPOSED OIL AGREEMENT. WE HAD HOPED TO INCORPORATE WORDS WHICH WOULD IMPLY A DISCOUNT FROM MARKET PRICES, WHEREAS PATOLICHEV WANTED WORLD MARKET PRICES STATED SPECIFICALLY AS OUR BASIS FOR PRICING. WE MUST OPPOSE THIS POSITION AND ARE HOPEFUL THAT AGREEMENT CAN BE REACHED ON A LESS SPECIFIC PRICE PROVISION

ALONG LINES SUGGESTED ABOVE.

6. WITH REGARD TO THE TACTICAL PLAN FOR HANDLING THE OIL AGREEMENT, WE MUST RECOGNIZE WHAT APPEARS TO BE A LIMITED BARGAINING LEVERAGE FROM THE LONG-TERM GRAIN AGREEMENT. ANY EFFORT ON OUR PART TO DELAY THE SIGNING OF THE GRAIN AGREEMENT UNTIL THE CONCLUSION OF A FIRM AGREEMENT ON OIL COULD HAVE A SERIOUS ADVERSE IMPACT ON OUR RELATIONSHIPS. ACCORDINGLY, IT IS RECOMMENDED THAT WE ATTEMPT TO INITIAL A LETTER OF INTENT ON THE PURCHASE OF SOVIET OIL ALONG THE LINES SUGGESTED ABOVE, AT THE SAME TIME THAT WE INITIAL OR SIGN THE GRAIN AGREEMENT. THE TEXT OF THE PROPOSED LETTER OF INTENT ON OIL WILL BE SENT BY SEPARATE CABLE.

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